

Message Text

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ACTION NEA-10

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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 7825
INFO AMEMBASSY NEW DELHI
AMEMBASSY ROME

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DEPT PASS USDA FOR PL 480 TITLE I COORDINATOR NORTON;
NEW DELHI FOR AGATT; ROME FOR FODAG

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SUBJ: SRI LANKA FOOD GRAIN SITUATION

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1. SUMMARY: UNTIL MORE IS KNOWN ABOUT WHAT ACTIONS THE NEW GOVERNMENT WILL TAKE TO ACHIEVE ITS ANNOUNCED GOALS OF REDUCING FOOD PRICES AND INCREASING PRODUCTION, IT IS NOT POSSIBLE TO PREPARE SUPPLY-DISTRIBUTION TABLES FOR RICE AND FLOUR FOR 1977 OR 1978. THE GOVERNMENT HAS PROMISED TO PROVIDE 8 POUNDS OF CEREAL PER PERSON PER WEEK, WHICH IS MORE THAN HAS EVER BEEN AVAILABLE IN THE PAST, AND TO REDUCE THE COST OF LIVING. NO SPECIFICS ON HOW THESE GOALS WILL BE ACHIEVED HAVE YET BEEN ANNOUNCED. DUE TO GOOD RAINFALL, THE CURRENT PROJECTION FOR PADDY PRODUCTION THIS YEAR IS 80.8 MILLION BUSHES, WHICH WOULD BE A NEW RECORD. THE MINISTRY OF AGRICULTURE IS NOW WORKING ON NEXT YEAR'S PADDY TARGETS. IN AN EFFORT TO CORRECT COR-

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RUPTION AND INEFFICIENCY IN THE CO-OPERATIVE SYSTEM, AND TO IMPROVE THE DISTRIBUTION OF FOOD AND OTHER CONSUMER GOODS, PRIVATE TRADERS WILL NOW BE ALLOWED TO IMPORT AND SELL THESE PRODUCTS IN COMPETITION WITH THE GOVERNMENT. AS THE CURRENT DOMESTIC PRICES OF RICE AND WHEAT FLOUR ARE ABOVE WORLD MARKET PRICE, THE GOVERNMENT COULD LOWER THE RATION PRICE OF RICE SOMEWHAT, AND THE FIXED PRICE OF FLOUR COULD BE REDUCED

CONSIDERABLY, WITHOUT EXCEEDING THE BUDGET SUBSIDIES FOR 1977. THE GOVERNMENT'S DRIVE TO CUT THE COST OF LIVING WILL MAKE IT MORE DIFFICULT TO DO ANYTHING ABOUT THE PRESENT OVERVALUED EXCHANGE RATE. END OF SUMMARY.

2. THE SUPPLY-DISTRIBUTION TABLES FOR RICE AND WHEAT FLOUR PROVIDED IN PREVIOUS REPORTS WERE BASED ON PROJECTIONS PREPARED BY THE EXTERNAL RESOURCES DIVISION OF THE MINISTRY OF PLANNING AND ECONOMIC AFFAIRS, AND ON SUPPLEMENTARY INFORMATION SUPPLIED BY THE FOOD COMMISSIONER'S DEPARTMENT AND THE MINISTRY OF AGRICULTURE. WITH THE ELECTION OF A NEW GOVERNMENT ON JULY 21, HOWEVER, THE ABOVE SOURCES ARE NOW VERY UNCERTAIN ABOUT CONSUMPTION AND IMPORT LEVELS FOR THE REMAINDER OF THIS YEAR AND AT A TOTAL LOSS TO MAKE ANY ESTIMATES FOR 1978.

3. DURING THE ELECTION CAMPAIGN, THE UNITED NATIONAL PARTY (UNP), WHICH WON 139 OUT OF 166 SEATS IN PARLIAMENT, PROMISED TO "MAKE AVAILABLE" A MINIMUM OF EIGHT POUNDS OF CEREAL PER ADULT PER WEEK. WHETHER THIS WOULD BE RICE, FLOUR, OR OTHER GRAINS WAS NOT SPECIFIED, NOR DID THE UNP INDICATE WHETHER THIS WOULD BE PART OF THE RATION PROGRAM OR JUST "AVAILABLE" IN SOME COMBINATION OF RATION AND FREE MARKET. SUBSEQUENT STATEMENTS BY UNP OFFICIALS QUOTED IN THE LOCAL PRESS HAVE TALKED ABOUT A WEEKLY ALLOWANCE OF EIGHT POUNDS OF CEREALS PER CONSUMER. AS ABOUT HALF THE POPULATION OF SRI LANKA IS UNDER 20 YEARS OF AGE, THE NUMBER OF ADULTS IS APPROXIMATELY LIMITED OFFICIAL USE

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SEVEN MILLION WHILE THE NUMBER OF CONSUMERS IS 14 MILLION. EIGHT POUNDS OF CEREAL PER CONSUMER PER WEEK IS MORE GRAIN THAN THIS COUNTRY HAS EVER HAD AVAILABLE. ON AN ANNUAL BASIS, THE RECORD HIGH AVAILABILITY OF RICE AND WHEAT (USING THE GRAIN EQUIVALENT OF FLOUR) WAS 7.2 POUNDS PER PERSON PER WEEK IN 1970. USING THE LATEST PROJECTION OF RICE PRODUCTION GIVEN BELOW AND REFTEL A LEVELS OF RICE, WHEAT AND FLOUR IMPORTS (AT GRAIN EQUIVALENT), THE WEEKLY PER CAPITA AVAILABILITY WORKS OUT TO 7.4 POUNDS. ADDITIONAL IMPORTS OF RICE/WHEAT/FLOUR OF ABOUT 200,000 TONS WOULD BE REQUIRED TO REACH THE EIGHT POUND PER PERSON PER WEEK MARK.

4. IN ITS FIRST WEEK IN OFFICE, THE NEW UNP GOVERNMENT HAS PROMISED TO REDUCE PRICES AND TO LIBERALIZE IMPORTS OF A VARIETY OF CONSUMER GOODS, INCLUDING RICE, FLOUR, AND SUGAR. THE EMBASSY UNDERSTANDS THAT VARIOUS PROPOSALS ON HOW TO DO ALL THIS ARE UNDER CONSIDERATION AT THE CABINET LEVEL, BUT LINE OFFICIALS IN EXTERNAL RESOURCES, THE FOOD COMMISSIONER'S DEPARTMENT, AND THE MINISTRY OF AGRICULTURE ARE STILL IN THE DARK. UNTIL FIRM DECISIONS ARE MADE ON NEW PRICES, SIZE OF RATION, IMPORT LEVELS, ETC., AND UNTIL AN ANALYSIS IS MADE OF WHAT IMPACT THESE CHANGES WILL HAVE ON CONSUMPTION, IT IS

NOT POSSIBLE TO PREPARE SUPPLY-DISTRIBUTION TABLES FOR 1977 OR 1978. IN THE MEANTIME, THIS MESSAGE WILL PROVIDE WHAT INFORMATION IS AVAILABLE ON THIS YEAR'S PADDY PRODUCTION AND CURRENT LEVELS OF RICE AND FLOUR CONSUMPTION.

5. AFTER BRINGING VIRTUALLY NO RAIN IN 1976, THIS YEAR'S SOUTHWEST MONSOON HAS PRODUCED CLOSE TO NORMAL PRECIPITATION IN MAY, JUNE, AND JULY. RAINFALL WAS A BIT ABOVE AVERAGE OVER MOST OF THE ISLAND IN MAY, WHILE THE DRY ZONE AREAS RECEIVED SOMEWHAT LESS THAN NORMAL IN JUNE AND JULY. AS A CONSEQUENCE, THE CHANCES ARE NOW VERY GOOD THAT 1977 WILL SEE A PADDY HARVEST AS GOOD AS OR BETTER THAN THE PREVIOUS HIGHS RECORDED IN 1970 (77.5 MILLION BUUNELS) AND 1974 (76.8 MILLION BUSHEL).
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6. ACCORDING TO AGRICULTURE SOURCES, THE "SEMI-OFFICIAL" FIGURE FOR THE 1977 MAHA CROP IS 52.8 MILLION BUSHEL. THIS IS JUST A SHADE OVER THE 52.6 MILLION BUSHEL RECORD ACHIEVED IN THE 1974 MAHA. BECAUSE OF THE GOOD RAINFALL DURING THE PAST SEVERAL MONTHS, MINISTRY EXPERTS HAVE INCREASED THEIR PROJECTION OF THE YALA CROP (WHICH IS JUST NOW BEGINNING TO BE HARVESTED) TO 28 MILLION BUSHEL, WHICH WOULD BE EXACTLY THE SAME AS THE RECORD YALA OF 1970. THE TOTAL FOR THE YEAR IS NOW ESTIMATED AT 80.8 MILLION BUSHEL WHICH WOULD BE A NEW RECORD. THE REASONS FOR THIS BUMPER HARVEST ARE, FIRST AND FOREMOST, ADEQUATE RAIN, SECOND, INCREASED ACREAGE UNDER IRRIGATION DUE TO THE MAHAWELI DIVERSION, AND THIRD, A SMALL INCREASE IN THE TOTAL ACREAGE SOWN AND HARVESTED.

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R 030231Z AUG 77
FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 7826
INFO AMEMBASSY NEW DELHI
AMEMBASSY ROME

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DEPT PASS USDA FOR PL 480 TITLE I COORDINATOR NORTON;
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7. THE MINISTRY OF AGRICULTURE HAS ONLY JUST BEGUN WORKING ON ITS PADDY OUTPUT TARGETS FOR 1978. THE TARGETS (WHICH HAVE HISTORICALLY BEEN MUCH TOO OPTIMISTIC) WILL NOT BE READY UNTIL THE LATER PART OF THIS MONTH. WHILE CHANGES IN GOVERNMENT POLICIES ARE NOT LIKELY TO HAVE AS MUCH IMMEDIATE IMPACT ON NEXT YEAR'S PADDY CROP AS THEY WILL ON RICE CONSUMPTION--AND, THEREFORE, IMPORTS--THE NEW GOVERNMENT HAS ALREADY DECLARED IT WILL MAKE A MAXIMUM EFFORT TO INCREASE PRODUCTION OF PADDY AND OTHER FOOD CROPS. ALTHOUGH PRESS REPORTS HAVE SUGGESTED THAT THE GOVERNMENT MAY DISTRIBUTE FREE FERTILIZER TO FARMERS, NO ONE IS QUITE SURE AT THIS TIME WHAT ACTION THE GOVERNMENT WILL EVENTUALLY TAKE TO STIMULATE FOOD PRODUCTION. THIS UNCERTAINTY, OF COURSE, COMPLICATES THE ALREADY DIFFICULT JOB OF FORECASTING NEXT YEAR'S PADDY CROP.

8. ACCORDING TO THE DEPUTY FOOD COMMISSIONER, THE PRESENT CONSUMPTION OF RATIONED RICE IS ABOUT 62,000 TO 64,000 TONS PER MONTH. WHILE THIS IS DOWN A BIT FROM THE 65,000 TONS PER MONTH REPORTED REFTEL A, TOTAL CONSUMPTION FOR THE YEAR IS LIMITED OFFICIAL USE

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STILL ESTIMATED AT 750,000 TONS. OPEN MARKET PRICES CONTINUE TO HOVER JUST ABOVE THE RATION PRICE OF ONE RUPEE PER POUND, AND MANY PEOPLE FIND IT MORE CONVENIENT TO DEAL WITH PRIVATE TRADERS THAN TO STAND IN LINE AT THE LOCAL CO-OPERATIVE STORES.

9. WHILE EVERYONE KNEW THE CO-OP SYSTEM WAS CORRUPT AND INEFFICIENT, REVELATIONS SINCE THE NEW GOVERNMENT TOOK OFFICE HAVE BEEN SURPRISING. IT NOW APPEARS THAT PART OF THE REASON FOR FOOD SHORTAGES IN VARIOUS PARTS OF THE COUNTRY WAS DUE TO HOARDING BY CO-OP MANAGERS. SOME STORES HAVE BEEN FOUND FULL OF RICE AND OTHER FOODSTUFFS THAT SHOULD HAVE BEEN DISTRIBUTED TO CONSUMERS. ALSO, SOME CO-OPS APPARENTLY USED THE FIRST-IN, FIRST-OUT METHOD OF INVENTORY CONTROL AS INVESTIGATORS HAVE FOUND FOUR AND FIVE YEAR OLD BAGS OF ROTTEN RICE AND FLOUR ON THE BOTTOM OF PILES OF FOODSTUFFS IN CO-OP STORE ROOMS. THE NEW MINISTER OF FOOD AND COOPERATIVES, S.B. HERATH, HAS PROMISED A COMPLETE REORGANIZATION OF THE COOPERATIVE

SYSTEM. IN THE MEANTIME, HE HAS AUTHORIZED DISTRIBUTION OF RATIONED GOODS THROUGH PRIVATELY OWNED STORES IN FOOD-SHORT AREAS. HE HAS ALSO SAID THAT PRIVATE DEALERS WILL BE ALLOWED TO IMPORT RICE, FLOUR, AND OTHER CONSUMER GOODS IN COMPETITION WITH THE GOVERNMENT.

10. THE PROBLEM RESULTING FROM THE FOOD COMMISSIONER'S REDUCED PURCHASES FROM THE PADDY MARKETING BOARD (PMB) DESCRIBED IN PARAS 6 AND 7, REFTEL A, CONTINUES. IN THE FIRST SIX MONTHS OF THIS YEAR, THE FOOD COMMISSIONER PURCHASED A TOTAL OF APPROXIMATELY 71,400 TONS OF MILLED RICE FROM THE PMB. DURING THE SAME PERIOD THE PMB PURCHASED SOME 15 MILLION BUSHELS OF PADDY FROM FARMERS, WHICH IS EQUIVALENT TO ABOUT 214,400 TONS OF MILLED RICE. THUS THE PMB IS NOW HOLDING STOCKS EQUIVALENT LIMITED OFFICIAL USE

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TO 143,000 TONS OF RICE, OR 10 MILLION BUSHELS OF PADDY. AS THIS IS THE LIMIT OF THE PMB'S STORAGE CAPACITY, THE EMBASSY UNDERSTANDS THAT THE PMB HAS STARTED TO REFUSE TO PURCHASE PADDY IN SURPLUS AREAS USING QUALITY GROUNDS AS AN EXCUSE FOR REJECTION. FARMERS ARE TURNING TO PRIVATE BUYERS AND, ACCORDING TO ONE PRESS REPORT, PADDY IS BEING SOLD FOR AS LITTLE AS RS. 25 PER BUSHEL (THE PMB'S "GUARANTEED PRICE" IS RS. 33 PER BUSHEL).

11. AT THE CURRENT OFFICIAL EXCHANGE RATE OF RS. 7.28 EQUALS ONE US DOLLAR, THE RATION PRICE FOR RICE OF ONE RUPEE PER POUND IS EQUIVALENT TO ALMOST \$303 PER METRIC TON. ACCORDING TO THE FOOD COMMISSIONER'S DEPARTMENT, THE AVERAGE LANDED COST OF THE 503,000 TONS OF IMPORTED RICE ALREADY CONTRACTED FOR (REFTEL A), IS ABOUT \$230 PER TON, OR RS. 0.76 PER POUND. THE INTERNAL DISTRIBUTION COST OF IMPORTED RICE IS RS. 0.09 PER POUND, SO THE ACTUAL COST TO THE GOVERNMENT FOR A POUND OF IMPORTED RICE DELIVERED TO THE CONSUMER IS APPROXIMATELY RS. 0.85. THIS MEANS THE GOVERNMENT ACTUALLY MAKES A PROFIT OF RS. 0.15 ON EVERY POUND OF IMPORTED RICE SOLD ON RATION. TO STIMULATE DOMESTIC PRODUCTION, THE PROCUREMENT PRICE OF LOCAL RICE IS WELL ABOVE THE WORLD MARKET. AFTER PAYING THE FARMER RS. 33 PER BUSHELS FOR PADDY, THE PMB SELLS THE MILLED RICE TO THE FOOD COMMISSIONER FOR RS. 1.14 PER POUND (\$345 PER METRIC TON). THE INTERNAL DISTRIBUTION COST TO RS. 1.25 PER POUND.

12. UNDER THE PRESENT PRICE STRUCTURE, THE FOOD COMMISSIONER'S DEPARTMENT ESTIMATES THAT THIS YEAR'S RICE DISTRIBUTION ON RATION WILL TOTAL APPROXIMATELY 750,000 TONS AT A DELIVERED COST OF ABOUT RS. 1,550 MILLION. AT ABOUT 320,000 TONS OF THIS TOTAL WILL BE DISTRIBUTED FREE, THE REMAINING 430,000 TONS SOLD AT ONE RUPEE A POUND WILL PRODUCE REVENUES OF APPROXIMATELY RS. 950 MILLION. THUS THE NET SUBSIDY ON RICE

IS RS. 600 MILLION. THIS IS MORE THAN RS. 100 MILLION BELOW THE AMOUNT BUDGETED FOR 1977, SO THE GOVERNMENT APPEARS TO HAVE LIMITED OFFICIAL USE

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SOME LEEWAY TO CUT RICE PRICES. THE LARGE STOCKS HELD BY THE PMB ARE AN ADDITIONAL INCENTIVE TO REDUCE THE RATION PRICE.

13. WHEAT FLOUR CONSUMPTION THIS YEAR IS PROJECTED AT 570,000 TONS ASSUMING THERE IS NO CHANGE IN RELATIVE FLOUR/RICE PRICES. AT THE PRESENT EXCHANGE RATE, THE GOVERNMENT'S SALE PRICE OF RS. 0.80 PER POUND IS EQUIVALENT TO \$242 PER TON COMPARED TO A CURRENT LANDED COST OF \$170 FOR COMMERCIAL FLOUR. WITH AN INTERNAL DISTRIBUTION COST OF RS. 0.09 PER POUND, THE TOTAL COST TO THE GOVERNMENT OF DELIVERED FLOUR IS CURRENTLY RS. 0.65 PER POUND. THE GOVERNMENT, THEREFORE, ACTUALLY MAKES A PROFIT OF RS. 0.15 PER POUND OF FLOUR SOLD. THIS PROFIT IS THE RESULT OF THE DROP IN WORLD WHEAT AND FLOUR PRICES SINCE LAST NOVEMBER (WHEN THE PRESENT SALE PRICE OF RS. 0.80 WAS FIXED) AND THE 20 PERCENT REVALUATION OF THE RUPEE IN MARCH THIS YEAR. THE BUDGET FOR 1977 ALLOCATES RS. 236.5 MILLION FOR FLOUR SUBSIDIES. THE GOVERNMENT, THEREFORE, HAS CONSIDERABLE SCOPE OF ACTION TO LOWER THE PRICE OF FLOUR.

14. THE ABOVE CALCULATIONS, HOWEVER, ARE BASED ON A GROSSLY OVERVALUED EXCHANGE RATE. WHEN THE PREVIOUS GOVERNMENT REVALUED THE RUPEE LAST MARCH, THE UNP STRONGLY ATTACKED THE MOVE AS BEING DETRIMENTAL TO THE COUNTRY'S ECONOMY. SINCE TAKING OFFICE ON JUNE 22, HOWEVER, THE UNP GOVERNMENT HAS INDICATED THAT ITS FIRST PRIORITY IS TO REDUCE THE COST OF LIVING AND NOTHING HAS BEEN SAID ABOUT A POSSIBLE DEVALUATION. HAVING DEEPLY COMMITTED ITSELF TO CUTTING PRICES, THE NEW GOVERNMENT MAY DECIDE THAT FOR POLITICAL REASONS IT WOULD BE EASIER TO LIVE WITH AN OVERVALUED RUPEE THAN TO ACCEPT THE INFLATIONARY IMPACT OF A DEVALUATION.

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